Affordable Housing Myths

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

What you will learn:

What is affordable housing

History of housing policy

Why affordable housing isn't being built

How does affordable housing benefit communities

Housing law and discrimination

Published by the
MICHIGAN ASSOCIATION OF PLANNING
Summer 2020
1919 West Stadium Boulevard, Suite 4
Ann Arbor, Michigan, 48103
734.913.2000 | www.planningmi.org
info@planningmi.org
Photo Credit: CJ Peters

An often-heard comment at Planning Commission public hearings is: *I don't want those people living near me!* Decision-makers regularly feel community pressure to deny affordable housing projects with the conversation around "who" should not be allowed at the forefront of discussion.

Rather, project questions should be based on what, where, and how. What type of development is being proposed? Where will it be located? How will it meet the needs of our community? Data, education, clear expectations, and a consistent process can assist in achieving project approvals.

What is Affordable Housing?

Most (but not all) affordable housing in Michigan is now constructed using Low-Income Housing Tax Credits (LIHTC) administered by the Michigan State Housing Development Authority (MSHDA). The tax credit program was created to address a lack of quality affordable housing created by a failure of the market to produce such housing because of the costs of land, labor, and materials.

Terms

Affordable dwelling: The Federal Department of Housing and Urban Development (HUD) defines an "affordable dwelling" as one that a household can obtain for 30 percent or less of its income.

NIMBY: acronym for Not In My Back Yard. Often citizens will be okay with a particular use in general terms, but do not want it next to their property or near their backyard.

A Word about Housing Law:

The 1968 Fair Housing Act prohibits discrimination in the sale, rental, and financing of housing based on race, color, national origin, religion, sex, familial status, and disability. Several Michigan cities have adopted "source of income" ordinances which prohibit discrimination against tenants based on their source of income such as housing choice vouchers and veterans' benefits.

In 2019, a bill was introduced into the Michigan State legislature which would have the same effect statewide. Just as the developer's financing is not the business of zoning, so too should a resident's source of income be irrelevant. Planning Commissions and local legislative bodies can make the debate about a proposed housing request simpler by not considering "who" it is for. Households change over time. If it is made clear from the onset of a public hearing that it is viewed as unacceptable to discuss in negative terms potential new neighbors, then the matter of reviewing a potential development project in light of its merits as it relates to the local zoning ordinance is easier.

The program subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low-income and moderate-income tenants. Incomes are based on a specified percent of area median income (AMI) that is adjusted for the community and family size.
Affordable housing includes workforce housing, housing for veterans or for persons with disabilities, and senior housing. Affordable housing isn't always subsidized with tax credits; it could simply be smaller unit sizes that reduce the overall square footage costs of a housing unit to achieve a specific price point.

How did we get here?

Communities must recognize that there are policy legacies of Veterans Administration (VA) and Federal Housing Administration (FHA) loan programs instituted in the 1950s. These programs purposefully excluded black and brown people – preventing them from securing mortgages and buying homes and thus depriving them of the opportunity to build wealth. Home ownership remains a major factor in wealth building, and home equity is the biggest financial asset for the typical American homeowner.

Failed public housing projects like Cabrini Green in Chicago have come to embody our definition of the term affordable housing. This is an outdated view. "Section 8" housing construction (where new private housing developments were built using some federal dollars) has largely been replaced with the use of portable vouchers that are used by families to cover all or part of their rent in the private market.

Let's look at the math

In 2017, in Washtenaw County the annual median household income was $70,509. The average rent in 2017 was $1,062 per month ($12,744 per year). A full-time bus driver earning $19 per hour makes about $38,780 per year. The full time bus driver working in Washtenaw County does not qualify for the Section 8 program because the average rental housing unit is 32% of her income. But the housing is not affordable according to the federal definition; it is about $1,000 more per year than what an "affordable dwelling" should be. The bus driver doesn't qualify for the federal program, but she also can't afford housing close to work.

Then why is more housing needed?

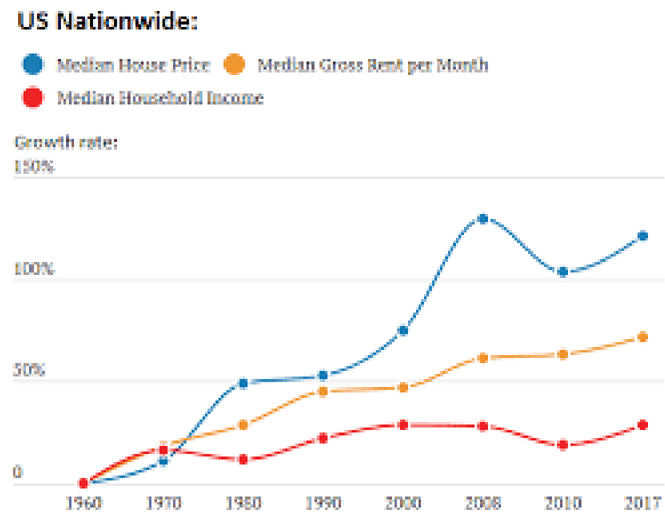
Section 8 vouchers are generally for individuals and families whose income is less than 50% of the area median income. A worker may be earning 70% of the area's median income and spending 40% of it on housing. Remember that affordable housing means that a household is spending no more than 30% of its income on housing. Think about how much nurses, firefighters, teachers, restaurant servers, grocery store clerks, or hair stylists earn in a month. Multiply by .30 and that is how much their housing costs should be.

Unprecedented housing pressures created from a lack of supply, lower incomes, older adults aging-in-place, young adults with student debt, foreclosures and evictions due to job loss from economic downturns (2008, 2020), and a housing mismatch between existing household lifestyles and housing types has created a perfect storm.

In many areas, high land costs, construction labor shortages, rising material costs, limited and expensive infrastructure, and taxes, make it almost impossible to put together financially viable projects that are affordable to the workforce. These developments require some level of subsidy, whether it's from grants, tax incentives, or land donations. There are a few public funding programs available to support affordable or workforce housing, but the dollars are limited

At meetings, participants may refer to "those people." "Those people" comments typically imply that new people from outside of the community will be moving in when, in fact, the housing is for your neighbors, your children or a teacher. Many aging baby boomers have not saved sufficiently for retirement, young people are entering the worst job market in years, and middle-class incomes have stagnated. According to AARP, there is a significantly widening gap between median household income and median home prices and rents.

A good exercise is to research the average salaries of jobs in your community, rental rates, and home prices to see how they measure up. If household costs are greater than 30% it is considered housing burdened. If it is greater than 50% the household is severely housing burdened. The United Way in Michigan has produced the Asset Limited, Income Constrained, Employed (ALICE) report which provides information about households that are above the poverty level but struggle to meet their daily needs.



Resources:

The MSHDA website has important housing information for homeownership, rental, homeless, developers, lenders, and neighborhoods. Under the "Developers" tab information is supplied for the LIHTC program including the Qualified Allocation Plan which has the scoring criteria for awards. https://www.michigan.gov/mshda/

The second largest cost for a household is transportation. The Center for Neighborhood Technology's H+T Affordability Index provides a comprehensive view of affordability at the neighborhood level. This quick resource shows population, household, and neighborhood housing and transportation costs by income. https://htaindex.cnt.org/

United Ways in Michigan have come together to release the ALICE report which highlights the magnitude of the number of households facing financial hardship, as well as the different types of households and the problems they confront. Michigan's report and county-level data is available on the ALICE website: https://www.uwmich.org/alice.

The Michigan Association of Planning offers a mini-workshop on housing for communities interested in more information on this topic.

Where should affordable housing go?

There are several factors to consider. First, affordable housing is needed where people who earn lower incomes already live so new, quality housing can be supplied near them. Next, consider your community's demographics. Economic segregation often serves as a proxy for racial segregation. Access to better schools, health outcomes, and employment are directly correlated to where people live. These factors along with proximity to transit should help a community determine where the housing should go and what kind of housing should be permitted when a community develops a master plan (or an update) and the correlated zoning ordinance updates.

MSHDA has specific place-based criteria that a developer must meet to be awarded tax credits including walkability and a mixed-use environment. Affordable housing can truly be workforce housing. Service sector jobs contribute to building a thriving downtown. In Grand Rapids, a developer who uses the Low-Income Housing Tax Credit (LIHTC) program once commented that he provides housing to "the baristas and ballerinas" of downtown Grand Rapids. Affordable housing can be viewed as "first in" housing to preserve affordability as a community grows. For example, housing costs in Traverse City have become so expensive that there is now a labor shortage for service jobs, which in turn is stunting economic growth. In high income communities like Ann Arbor, what was once a starter home is now out of reach for lower and moderate income residents who would have been the new market for such homes.

Stick to the submittal requirements

Affordable housing is not a land use. A community's zoning ordinance may list single-family homes, duplexes, or apartments. The type of financing used to construct a project is not a submittal requirement. Why, then, does it matter if a developer seeks to finance a housing development using a tax credit program that happens to provide affordable housing? Communities should focus on the use of the property (single or multi-family housing) and the type of structure being built (freestanding home, townhouse, or apartment building) and not on financing mechanisms.

Communities must also evaluate whether they exclude opportunities for multiple family housing by prohibiting those uses, and in the process do not provide for a variety of housing types that would include many types of households.

What else can communities do?

Development and land costs make it nearly impossible to build new homes that are affordable to households earning low, moderate, and even above-average incomes. Federal, state, and local subsidies and incentives can make development more affordable, while providing guarantees that the homes remain affordable over the long term.

Articulate your vision as an inclusive community by explicitly stating your housing goals and update your master plan and zoning ordinance accordingly.

Local tax incentives are available through payments in lieu of taxes, neighborhood enterprise zones, brownfield redevelopment, and land bank authorities. The conditions under which projects are eligible for these incentives vary widely, but they help offset costs to developers, ultimately lowering rents and sale prices for residents.

And finally, Michigan State Housing Development Authority (MSHDA), Community Development Finance Institutions (CDFI's), Michigan Economic Development Corporation (MEDC), and philanthropic institutions can also provide assistance.

This tear sheet was developed by the Michigan Association of Planning (MAP) for the Michigan Economic Development Corporation (MEDC). The Michigan Association of Planning is a 501 c 3 organization, dedicated to promoting sound community planning that benefits the residents of Michigan. MAP was established in 1945 to achieve a desired quality of life through comprehensive community planning that includes opportunities for a variety of lifestyles and housing, employment, commercial activities, and cultural and recreational amenities.